

Message Text

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ACTION MMO-02

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TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01
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R 100832Z JUL 78
FM AMEMBASSY BEIRUT
TO SECSTATE WASHDC 8628
INFO AMEMBASSY AMMAN
AMEMBASSY ATHENS
AMEMBASSY DAMASCUS
AMEMBASSY TEL AVIV

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ATHENS FOR RTDO

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SUBJ: QUARTERLY ECONOMIC REPORT: LEBANON (CERP 003)

REF: (A) BEIRUT 1769, (B) STATE A-0463

1. SUMMARY. ECONOMIC ACTIVITY WAS MIXED IN THE SECOND QUARTER, A VICTIM OF POLITICAL UNCERTAINTY. SOME ENCOURAGING SIGNS APPEARED: MAJOR LOANS WERE SIGNED, RECONSTRUCTION ACCELERATED, EMIGRANT REMITTANCES CONTINUED AT HIGH LEVELS. THE TRADE BALANCE WORSENEED, AND THE POLITICAL CONTEXT DETERIORATED, CASTING DOUBTS ON THE UPCOMING QUARTER. END SUMMARY.

2. HAVING ENDED THE FIRST QUARTER IN ANXIETY OVER DEVELOPMENTS IN SOUTH LEBANON, THE BUSINESS COMMUNITY SAW NEW FIGHTING IN THE AIN AR-RUMMANEH FLARE-UP APRIL 9-14. MAY
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WAS A TRANQUIL MONTH IN BEIRUT, THE BEST SINCE JANUARY, BUT POLITICAL DEVELOPMENTS IN NORTH AND SOUTH LEBANON WERE UNFAVORABLE. FACTIONAL TENSION IN THE NORTH LED TO THE CLOSURE OF THE SHEKKA CEMENT PLANTS IN EARLY JUNE, THE FRANJIYAH MURDER JUNE 13, AND A REPRISAL EXECUTION IN THE NORTHERN BEKAA ON JUNE 28. THE SITUATION IN SOUTH LEBANON, AMBIGUOUS SINCE MID-MARCH, SLID UNAMBIGUOUSLY BEYOND GOL

CONTROL IN MID-JUNE. AFTER A SUPERFICIALLY GOOD MONTH IN MAY, LEBANON ENDED JUNE IN A CLIMATE OF UNCERTAINTY. HIGHLIGHTS FOLLOW.

3. FUNDS FOR RECONSTRUCTION. THE GOL COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION (CDR) FINALIZED FOUR MAJOR LOANS IN THE QUARTER. THESE INCLUDED KD 8 MILLION FROM KUWAIT (\$28.6 MILLION), \$150 MILLION FROM A CONSORTIUM OF U.S. AND EUROPEAN BANKS, FF 240 MILLION (\$52.2 MILLION) IN COMMERCIAL CREDITS FROM THE FRENCH GOVERNMENT AND COFACE, E.U.A. 25 MILLION (\$31 MILLION) FROM THE EUROPEAN ECONOMIC COMMUNITY THROUGH THE E.I.D. EXCEPTING THE \$150 MILLION EURODOLLAR LOAN, WHICH WAS FOR GENERAL USE, THE FUNDS WERE RESTRICTED TO APPLICATION IN SPECIFIED INFRASTRUCTURE CATEGORIES (THE FRENCH CASE) OR TO SPECIFIC PROJECTS (THE KUWAIT AND EEC CASES). THESE CREDITS ENDOWED THE CDR WITH AN IMPORTANT FINANCIAL BASE.

4. A REVIEW OF THESE AND PREVIOUS LOANS TO THE GOL SHOWS WESTERN, NOT ARAB MONEY, DOMINATING THE LIST. IF ONE INCLUDES 1976-78 USAID (\$99 MILLION) AND 1977-79 FMS (\$100 MILLION CONTEMPLATED) ASSISTANCE, IT IS EVEN CLEARER THAT WESTERN SOURCES HAVE PLACED MONEY EARLY AGAINST THE RISKS IN LEBANON. MAJOR ARAB HELP HAS BEEN DELIVERED AFTER THE FACT, VIZ THE SAUDI PAYMENT OF GOL DEBTS TO TAPLINE AND THE ABOVE MENTIONED KUWAITI LOAN FINALIZED THIS YEAR FOR LIMITED OFFICIAL USE

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AIRPORT WORK PERFORMED IN 1977. ARABS HAVE NOT PREFERRED TO ADVANCE FUNDS, NOR TO OUR KNOWLEDGE HAVE THEY LEND FOR GENERAL PURPOSES.

5. PROGRESS DOWNTOWN. PROGRESS ACCELERATED IN DOWNTOWN BEIRUT (SEE BEIRUT 3695, 3529). REHABILITATION WORK BEGAN ON THE MUNICIPALITY BUILDING, THE AL-OMAR MOSQUE, AND SEVERAL LARGE BUILDINGS THAT WERE UNTOUCHED IN MARCH. WORK CONTINUED ON STARCO CENTER. A NEW SOUK COMPLEX NEAR THE PORT WAS NEARLY COMPLETE IN LATE JUNE. STREET-LEVEL CLEAN-UP AND REFURBISHMENT OF SMALL SHOPS CONTINUED OVER A WIDENING AREA. THE PHOENICIA HOTEL MANAGEMENT ANNOUNCED PLANS TO INVEST LL 40 MILLION TO REOPEN THE LARGER OF THE HOTEL TOWERS BY SUMMER 1979. DELUXE AND TOURISTIC CONSTRUCTION PROGRESSED AND AMID BURGEONING REAL ESTATE VALUES. BEACHFRONT APARTMENT RESORTS, SUCH AS AQUAMARINA AND TABARJA BEACH (JOUNIEH) SOLD BREEKING-PEN SIZED APARTMENT "CHALETS" AT \$34,000 APIECE. IN SOUTHWEST BEIRUT A SIMILAR COMPLEX, "SUMMERLAND," NEARED COMPLETION ADJACENT TO THE CORAL BEACH HOTEL. BEIRUT REAL ESTATE TRADED AT HIGH PRICES DURING THE QUARTER, WITH SAUDI AND GULF MONEY FREQUENTLY ON THE BUYING SIDE.

APARTMENT RENTS HAVE APPROXIMATELY DOUBLED SINCE JUNE 1976.

6. BANKING. BANKS COMPLETED PORTFOLIO REVIEWS AND SUBMITTED AUDITED 1976-77 STATEMENTS DURING THE QUARTER IN ACCORDANCE WITH CENTRAL BANK REQUIREMENTS. AMERICAN BANKERS CLAIMED OUTRIGHT LOSSES TOTALED 5 PERCENT OR LESS OF THEIR PRE-WAR LOAN PORTFOLIOS. THE 1975-76 WAR PROVIDED AN ACID TEST OF BORROWER CHARACTER AND THIS, COMBINED WITH CONTINUED HIGH IDLE LIQUIDITY IN

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THE SYSTEM AND A STRONG DESIRE BY BANKS TO LEND, PRODUCED BEGINNING IN APRIL A ROUND OF AGGRESSIVE POACHING AMONG AMERICAN BANKS AFTER ONE ANOTHER'S BEST CUSTOMERS. THE "TWO HUNDRED GOOD CLIENTS AROUND TOWN," AS ONE BANKER CHARACTERIZED THE TARGETS, WITNESSED A PRICE WAR AMONG MAJOR LENDERS. A CHASE MANHATTAN OFFICER SUMMARIZED BANK LENDING ATTITUDES TOWARD THE PRIVATE SECTOR AS FOLLOWS: "THE IDEAL BORROWER IS A WELL-ESTABLISHED, EXPORT-ORIENTED PRODUCER LOCATED IN A SAFE AREA (READ JOUNIEH AND THE CENTRAL MARONITE COAST) WHO PROVIDES EITHER AN OFFSHORE PARENT COMPANY GUARANTEE OR 125 PERCENT COLLATERAL OF HIGH QUALITY. NON-IDEAL BORROWERS HAVE LITTLE OR NO CHANCE WITH US UNDER PRESENT CONDITIONS." IN SUM, BANK LENDING POLICIES EVEN TO PRIME BORROWERS WERE CONSERVATIVE.

7. COMMERCE. BANK LETTER-OF-CREDIT BUSINESS INCREASED, AS DID IMPORTS. THE AIN AR-RUMMANEH FLARE-UP IN APRIL AND FACTIONAL STRIFE IN NORTH LEBANON IN MAY AND JUNE REDUCED EXPORTS. HARDEST HIT WAS CEMENT, EXPORTS OF LIMITED OFFICIAL USE

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WHICH DROPPED FROM AN APRIL LEVEL OF LL 22 MILLION TO AN ESTIMATED LL 1 MILLION WORTH IN JUNE. FOR COMPARISON, CEMENT EXPORTS TOTALLED LL 64 MILLION IN JANUARY, THE LAST "NORMAL" MONTH. ESTIMATES FOR THE FIRST HALF INDICATE LEBANON'S IMPORTS RAN AT AN ANNUALIZED LEVEL NEAR LL 6 BILLION (VS LL 4.5 BILLION IN 1977). EXPORTS, 17 PERCENT BELOW 1977'S SECOND HALF FIGURES, DECLINED MONTHLY AFTER MARCH. CONSUMPTION LEVELS REMAINED HIGH, AS EMIGRANT REMITTANCES (ESTIMATED AT ANYWHERE FROM LL 100-400 MILLION PER MONTH) AND OTHER CAPITAL INFLOWS PERMITTED A STANDARD OF LIVING QUITE UNRELATED TO LEBANON'S DOMESTIC PRODUCTION. IMPORTANT PROBLEMS, SUCH AS UNEMPLOYMENT AND THE DISPARITY BETWEEN LIVING COSTS AND THE DOMESTIC WAGE STRUCTURE, WERE MASKED BY THE ABILITY AT ALL LEVELS TO SPEND RELATIVELY FREELY. THE POUND STRENGTHENED FROM 2.95 TO 2.88/DOLLAR.

8. INDUSTRY. EXPANSION CONTINUED AMONG EXPORT-ORIENTED INDUSTRIES (EXCEPT CEMENT), NOTWITHSTANDING COMPLAINTS THAT THE GULF MARKET WAS STAGNANT OR OVERSOLD. IMPORT-SUBSTITUTING INDUSTRIES FACED A COMPLEX DOMESTIC MARKET MARKED BY HEAVY COMPETITION FROM DUMPED AND SMUGGLED PRODUCTS AND A HIGH PROPENSITY BY LEBANESE CONSUMERS TO IMPORT. THE TREND OF THESE INDUSTRIES IS MORE DIFFICULT TO JUDGE BUT WAS PROBABLY FLAT.

9. GOL LENDING TO THE PRIVATE SECTOR WAS A DISAPPOINTMENT. AS WE HAD ANTICIPATED (BEIRUT 0767), THE PROCEDURE DEvised BY THE CDR FOR TRANSMITTING LL 300 MILLION IN GOL SOFT LOANS TO WAR-DAMAGED INDUSTRIAL AND TOURISTIC ENTERPRISES DISHEARTENS APPLICANTS WITH ITS COMPLEXITY. FEW DURING THE QUARTER MANAGED TO QUALIFY FOR THE PROGRAM. INDUSTRIALISTS COMPLAINED TO MEMBERS OF THE CABINET THAT THE GOL NEITHER BOUGHT FROM THEM, LENT TO THEM, NOR LIMITED OFFICIAL USE

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GAVE THEM ADEQUATE TARIFF PROTECTION. THEY CITED ALSO A LACK OF PROTECTION FROM DUMPING AND SMUGGLING. IN THE GOL'S DEFENSE, THE NATIONAL BANK OF INDUSTRIAL AND TOURISTIC DEVELOPMENT (NBITD) CLAIMED IT HAD APPROVED LL 40

MILLION IN LOANS (APART FROM THE CDR'S LL 300 MILLION FACILITY) OF WHICH INDUSTRY HAD DRAWN ONLY LL 13 MILLION. ACCORDING TO THE NBITD, INDUSTRIAL BORROWERS WERE UNWILLING IN LIGHT OF SECURITY CONDITIONS TO EMPLOY THE LOANS AVAILABLE. ONE CAN FIND TRUTH IN THE CLAIMS OF BOTH SIDES.

10. AMERICAN BUSINESS INTERESTS: AMERICAN COMPANIES SELLING OUTSIDE LEBANON (MERCK, 3M) EXPERIENCED HIGHER PROFITS DURING THE QUARTER. THOSE SELLING WITHIN THE COUNTRY, SUCH AS OTIS, RODE THE SECURITY VICISSITUDES UNCOMFORTABLY. IN MAY, SEVERAL U.S. COMPANIES EXPRESSED TO THE EMBASSY AN INTEREST IN RETURNING TO BEIRUT. RECENT EVENTS WILL HAVE CHANGED THEIR MINDS. THE U.S. BANKS, WITH OLD LOANS RENEGOTIATED AND NEW ONES ON THE BOOKS, PLAN TO HANG TOUGH WITH THEIR PRESENT SMALL EXPATRIATE STAFFS. WE EXPECT AMERICAN PRESENCE TO DECREASE DURING THE NEXT QUARTER.

11. COMMENT: IT GOES WITHOUT SAYING THAT THE CHRISTIAN-SYRIAN CONFLICT JULY 1-5 DEALT A GRAVE BLOW TO RECONSTRUCTION HOPES AND INDEED PUBLIC FAITH IN LEBANON'S FUTURE. HOW MUCH PROGRESS WAS WIPED OUT IN THE FIGHTING IS NOT AT PRESENT ASCERTAINABLE, NOR CAN ANYONE PREDICT THAT CLASHES WILL NOT RECUR. THE POLITICAL DIFFERENCES THAT GAVE RISE TO THE CONFLICT REMAIN UNRESOLVED. END COMMENT.

12. PARAS 5 AND 6 RESPOND TO EALR ITEMS.

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